REPORT OF THE AUDIT COMMITTEE

January 8, 2008

The Honorable,
The Board of Commissioners of Cook County

ATTENDANCE

Present: Chairman Daley, Vice Chairman Goslin, Commissioners Butler, Maldonado, Quigley and Schneider (6)

Ex-Officio Members: Laura A. Burman – Cook County Auditor; and Donna L. Dunnings – Chief Financial Officer, Bureau of Finance (2)

Absent: Commissioner Gorman (1)

Also Present: Commissioners Beavers and Peraica (2); Alexis A. Herrera – Budget Director, Office of the Sheriff; Lisa M. Walik – Director, Department of Risk Management; Earl Dunlap – Transitional Administrator, Juvenile Temporary Detention Center; Karen Crawford – Director, President's Office of Employment Training (POET); John Cookinham – Chief Financial Officer, Bureau of Health Services; Kelvin Magee – Comptroller, Stroger Hospital of Cook County; Pat Hagan – Regional Managing Partner, Public Sector Industry, Deloitte & Touche, LLP; Jeffrey Sirkin – Senior Consultant and Actuary with ARM Tech, a subsidiary of AON Consulting, Inc.; and Michele Greco – Partner, Ernst & Young LLP

Court Reporter: Anthony W. Lisanti, C.S.R.

Ladies and Gentlemen:

Your Audit Committee of the Board of Commissioners of Cook County met pursuant to notice on Tuesday, January 8, 2008 at the hour of 1:00 P.M. in the Board Room, Room 569, County Building, 118 North Clark Street, Chicago, Illinois.

Your Committee has considered the following items and upon adoption of this report, the recommendations are as follows:

Chairman Daley asked Donna Dunnings, Chief Financial Officer, to provide an overview of the audits pertaining to the County.

Ms. Dunnings provided an overview of accomplishments and goals. She stated that there is now a Director of Financial Reporting in the Comptroller's office, Faissal Abassi, who is responsible for coordinating all auditing functions for the County. Additionally, Wrunda Bates and Lillian Adarmes have been assigned to the Fixed Asset area, an area in which the County has been deficient in previous audits.

Chairman Daley entered into the record letters to the Chief Financial Officer, Donna Dunnings, Dr. Robert Simon, Interim Chief, Bureau of Health Services, and the Honorable Maria Pappas, Treasurer of Cook County.

288051 INDEPENDENT AUDITOR'S REPORT OF THE FINANCIAL STATEMENT, Maria Pappas, Cook County Treasurer by John P. Dalen, Director of Internal Audit, transmitting a Communication, dated June 12, 2007:

The Office of the County Treasurer is pleased to submit to the Cook County Board of Commissioners the Independent Auditor's Report of the Financial Statement as of November 30, 2006 and ~~2007~~ 2005.

* **Referred to the Audit Committee, as amended on 7/10/07.**

In response to an inquiry from Commissioner Quigley pertaining to future usage of the J.D. Edwards system, Ms. Dunnings stated that she is working on an assessment with the Chief Information Officer, Antonio Hylton. Ms. Dunnings expects to report to the Board on the assessment by June 1, 2008.

Chairman Daley stated that the report would be sent to the Finance Committee for further discussion.

Commissioner Quigley, seconded by Commissioner Butler, moved to receive and file Communication Number 288051, as amended. The motion carried.

290372 SHERIFF OF COOK COUNTY, Thomas J. Dart, by Alexis A. Herrera, Budget Director, transmitting a Communication:

requesting permission to write-off from the Eviction Fee Fund $1,312.00 in non-collectible checks dated between August 28, 2003 through December 7, 2004.

* **Referred to the Audit Committee on 11/6/07.**

Alexis A. Herrera, Budget Director for the Office of the Sheriff, provided the Committee members with an overview of the collection procedures followed. Ms. Herrera stated three attempts are made by mail, followed by an attempt in person from Sheriff's personnel. Ms. Herrera commented the Office of the Clerk of the Circuit Court and the Office of the Sheriff are currently working on the implementation of NSF check reporting for the Sheriff's Office into the Clerk's ARDC system. Ms. Herrera believes this will significantly reduce the amount of non-collectible checks.

Chairman Daley asked the Sheriff's Office to ascertain the cost of printing the names of the attorneys presenting NSF checks in the Law Bulletin. Ms. Herrera responded she would provide the committee with the cost.

Commissioner Butler, seconded by Commissioner Quigley, moved the approval of Communication Number 290372. The motion carried.

290552 BUREAU OF FINANCE, by Donna L. Dunnings, Chief Financial Officer, transmitting a Communication, dated November 13, 2007:

Subject: Comprehensive Annual Financial Report (CAFR) for the Year Ended November 30, 2006

submitting herewith a copy of Cook County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended November 30, 2006, prepared by Deloitte & Touche, LLP. I am requesting that the report be referred to the Audit Committee for further consideration.

*** Referred to the Audit Committee on 11/20/07.**

Commissioner Maldonado, seconded by Commissioner Butler, moved to receive and file Communication Number 290552. The motion carried.

290824 DEPARTMENT OF RISK MANAGEMENT, by Lisa M. Walik, Director, transmitting a Communication, dated November 20, 2007:

Re: Actuarial Analysis FY 2006

The Department of Risk Management respectfully submits a copy of the Actuarial Analysis for the fiscal year ending November 30 2006, prepared by ARM Tech, a subsidiary of Aon Corporation. I am requesting that the report be referred to the Audit Committee for further consideration.

*** Referred to the Audit Committee on 12/4/07.**

In response to an inquiry from Commissioner Peraica in reference to page 12 of the analysis regarding the overall sum of settlements for last year, Jeffrey Sirkin, representing ARM Tech, stated the figures reflected for the years 2008 and 2009 are projections.

Commissioner Butler, seconded by Commissioner Quigley, moved to receive and file Communication Number 290824. The motion carried.

291097 BUREAU OF HEALTH SERVICES 2006 AUDIT AND MANAGEMENT LETTER. Transmitting a Communication, dated December 7, 2007 from Robert R. Simon, M.D., Interim Chief, Bureau of Health Services:

submitting herewith a copy of the Cook County Bureau of Health Service's 2006 Audit and Management Letter for the fiscal year ended November 30, 2006 which was prepared by Ernst & Young, LLP and the responses from Bureau Management relating to the Bureau of Health Annual Financial Audit Report for the fiscal year ended November 30, 2006. I respectfully request that the reports be forwarded to the Audit Committee of the Board of Commissioners for further discussion.

*** Referred to the Audit Committee, as amended on 12/18/07.**

Chairman Daley noted that the percentage of self-pay patients in 2006 increased to 52%, from 47% in 2005. He asked Mr. Cookinham how this increase would affect the Bureau of Health Services.

Mr. Cookinham replied that there would be a reduction in patient revenue. He added that there would be efforts to try to increase eligibility.

Commissioner Peraica inquired as to the anticipated patient revenues in 2008 after all eligibility is exhausted.

Mr. Cookinham responded that the higher November 2007 patient revenues may not be sustained in future months, but that he would get back to the Committee members with additional information.

Vice Chairman Goslin restated that 47%-52% of the patients served by the Bureau of Health Services have no ability to pay. The best the Bureau expects in the future would be 43%-44% of patients that do not have the ability to pay. He restated these figures to emphasize the problem with the Bureau is systemic.

Commissioner Maldonado, seconded by Commissioner Quigley, moved to receive and file Communication Number 291097, as amended. The motion carried.

291098 COOK COUNTY SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2006. Transmitting a Communication dated November 28, 2007 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Single Audit Report for the Fiscal Year ended November 30, 2006

submitting a copy of the County Single Audit Report, applicable to our major federal grant programs, for the fiscal year ended November 30, 2006, prepared by the Bureau of Finance and audited by Washington, Pittman & McKeever, LLC. As part of this report, I am also including a copy of the County's Basic Financial Statements for the fiscal year ended November 30, 2006 and Independent Auditor's Report. I respectfully request that these reports be forwarded to the Audit Committee of the Board of Commissioners for further discussion.

* **Referred to the Audit Committee on 12/18/07.**

Earl Dunlap, Transitional Administrator of the Juvenile Temporary Detention Center, provided the Committee members with a brief overview of strategies and mechanisms that have been put in place at the Juvenile Temporary Detention Center since his appointment as Transitional Administrator. These actions address many of the issues discussed in the Audit Report. Mr. Dunlap also stated that as of January 14, 2008, the Office of the Chief Judge will be responsible for certain functions for the JTDC, such as purchasing, procurement, and payroll.

Karen Crawford, Director of the President's Office of Employment Training (POET), reviewed some of the policies and procedures recently adopted by POET as a result of issues brought up in the Audit Report.

Commissioner Peraica requested additional information related to the nature of the audit adjustments totaling over $61 million for the Bureau of Health Services for the fiscal year ending November 30, 2006.

John Cookinham, Chief Financial Officer of the Bureau of Health Services responded that the Bureau of Health Services was not preparing monthly, quarterly or bi-annual financial statements; only annual statements were prepared. Due to this, some adjustments were necessary. Mr. Cookinham stated the Bureau of Health Services currently is working to prepare monthly statements.

Additional information pertaining to the audit adjustments for the Bureau of Health Services was given by Michele Greco, Partner with Ernst & Young, and Kelvin Magee, Comptroller of Stroger Hospital of Cook County.

Commissioner Butler, seconded by Vice Chairman Goslin, moved to receive and file Communication Number 291098. The motion carried.

291099 COOK COUNTY, ILLINOIS – 2006 MANAGEMENT LETTER FOR FISCAL YEAR ENDED NOVEMBER 30, 2006. Transmitting a Communication dated November 28, 2007 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Cook County, Illinois - 2006 Management Letter for Fiscal Year ended November 30, 2006

submitting a copy of the County's 2006 Management Letter for fiscal year ended November 30, 2006, prepared by Deloitte & Touche, LLP and responses from County Management relating to the Cook County Comprehensive Annual Financial Report for fiscal year ended November 30, 2006 previously submitted. I respectfully request that these reports be forwarded to the Audit Committee of the Board of Commissioners for further discussion.

* **Referred to the Audit Committee on 12/18/07.**

In response to a question from Commissioner Peraica regarding the implementation of GASB 45, Ms. Dunnings replied GASB 45 would be implemented in the year 2008. Pat Hagan, Regional Managing Partner, Public Sector Industry of Deloitte & Touche, commented on GASB 45, and its impact on governments nationwide. He further stated GASB 45 requires that health premium obligations for retirees be part of the audited financial statements.

Commissioner Quigley, seconded by Commissioner Butler, moved to receive and file Communication Number 291099. The motion carried.

Chairman Daley asked the Secretary to the Board to call upon the registered public speaker, in accordance with Cook County Code, Sec. 2-108(dd):

1. George Blakemore, Concerned Citizen

Commissioner Butler moved to adjourn the meeting, which motion was duly seconded. The motion carried and the meeting was adjourned.

YOUR COMMITTEE RECOMMENDS THE FOLLOWING ACTION WITH REGARD TO THE MATTERS NAMED HEREIN:

Communication Number 288051	Received and Filed, as amended
Communication Number 290372	Approved
Communication Number 290552	Received and Filed
Communication Number 290824	Received and Filed
Communication Number 291097	Received and Filed, as amended
Communication Number 291098	Received and Filed
Communication Number 291099	Received and Filed

Respectfully submitted,
Audit Committee

John P. Daley

John P. Daley, Chairman

Attest:

Matthew B. DeLeon

Matthew B. DeLeon, Secretary

The transcript and audio recording for this meeting is available from the Office of the Secretary to the Board, 118 North Clark Street, Room 567, Chicago, IL 60602.

JOHN P. DALEY
CHAIRMAN
COMMITTEE ON FINANCE

OFFICE OF THE
BOARD OF COMMISSIONERS OF COOK COUNTY
118 NORTH CLARK STREET #567
CHICAGO, ILLINOIS 60602
(312) 603-4400

January 8, 2008

Dr. Robert Simon
Cook County Bureau of Health
1900 W. Polk St
Chicago IL 60612

Dear Dr. Simon:

Please provide a written response to the following questions regarding the Heath Facilities Management Letter and Annual Financial Statements, scheduled to be discussed at the Audit Committee on January 8, 2008.

1. The Bureau's self-pay percentage increased from 47% of the patients in 2005, to 52% in 2006. Do you project that this trend will continue, and if so, what is the projected self-pay rate for 2008?

2. What is the primary cause of the $155 million decrease in net assets, referred to on page 4 of the Management Letter?

3. During 2006, a total of 34 audit adjustments were required to correct errors that were entered in the Bureau's books. What steps have been taken to reduce the number of accounting errors that require restatement?

4. Please describe the steps taken to improve security and access control within the SMS and SoftMed applications.

Thank you for your attention to this inquiry.

Sincerely,

Chairman John P. Daley
Audit Committee

JPD/bh

JOHN P. DALEY
CHAIRMAN
COMMITTEE ON FINANCE

OFFICE OF THE
BOARD OF COMMISSIONERS OF COOK COUNTY
118 NORTH CLARK STREET #567
CHICAGO, ILLINOIS 60602
(312) 603-4400

January 8, 2008

The Hon. Maria Pappas
Cook County Treasurer
118 N. Clark St.
Chicago, IL 60602

Dear Treasurer Pappas:

Please provide a written response for the record of the Audit Committee's January 8, 2008 meeting regarding issues raised by the Independent Auditors Report for your office, as follows:

1. Do you project that any surplus above $5 million in the Unknown Heirs Fund will be available for escheatment into county general funds during Fiscal Year 2008? If so, what is your estimate of that amount?

2. Of the $1.3 million in undistributed taxes remaining as of November 30, 2006, (see page 14) how much of that sum was distributed in 2007 according to the formula for determining which taxing bodies are entitled to receive disbursements?

Thank you for your attention to this inquiry.

Sincerely,

Chairman John P. Daley
Audit Committee

JPD/bh

JOHN P. DALEY
CHAIRMAN
COMMITTEE ON FINANCE

OFFICE OF THE
BOARD OF COMMISSIONERS OF COOK COUNTY
118 NORTH CLARK STREET #567
CHICAGO, ILLINOIS 60602
(312) 603-4400

January 8, 2008

Ms. Donna Dunnings
Chief Financial Officer
118 N. Clark St.
Chicago, IL 60602

Dear Ms. Dunnings:

Please provide a written response for the record of the Audit Committee's January 8, 2008 meeting regarding issues raised by the Independent Auditors Report and CAFR, as follows:

1. On page 3 of the CAFR's Management Discussion & Analysis, the net assets of the County decreased $368.3 million. What are the primary contributing factors to this decrease?

2. On page 9 of the Management Discussion & Analysis, the unrestricted net assets show a $333.2 deficit. How does this figure compare to prior years, and what is being done to reduce it?

3. On page 11 of the Management Discussion & Analysis, the net assets of the governmental activities were a negative $826.6 million. How does this figure compare to prior years, and what is being done to reduce it?

4. A new Government Accounting Standards Board Statement #45 requires governments to put other pension benefits (OPEB) costs on our books during the current fiscal year. What is out plan to address this?

Thank you for your attention to this inquiry.

Sincerely,

Chairman John P. Daley
Audit Committee

JPD/bh

Governmental Accounting Standards Board

Summaries / Status

Summary of Statement No. 45
Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions
(Issued 6/04)

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare,* as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

How This Statement Improves Financial Reporting

Postemployment benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer
- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded

- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Summary of Standards

Measurement (the Parameters)

Employers that participate in *single-employer* or *agent multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or overcontributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed thirty years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the *healthcare cost trend rate* for postemployment healthcare plans, be guided by applicable actuarial standards.

Alternative Measurement Method

A sole employer in a plan with fewer than one hundred total plan members (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retirees and beneficiaries currently receiving benefits) has the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations. The option also is available to an agent employer with fewer than one hundred plan members, in circumstances in which the *employer's* use of the alternative measurement method would not conflict with a requirement that the *agent multiple-employer plan* obtain an actuarial valuation for plan reporting purposes. Those circumstances are:

- The plan issues a financial report prepared in conformity with the requirements of Statement 43 but is not required to obtain an actuarial valuation because (a) the plan has fewer than one hundred total plan members (all employers) and is eligible to use the alternative measurement method, or (b) the plan is not administered as a qualifying trust, or equivalent arrangement, for which Statement 43 requires the presentation of actuarial information.
- The plan does not issue a financial report prepared in conformity with the requirements of Statement 43.

This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

Net OPEB Obligation—Measurement

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the ARC, (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or overcontributions.

Financial Statement Recognition and Disclosure

Sole and agent employers should recognize OPEB expense in an amount equal to annual OPEB cost in government-wide financial statements and in the financial statements of proprietary funds and fiduciary funds from which OPEB contributions are made. OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Net OPEB obligations, if any, including amounts associated with under- or overcontributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

Employers are required to disclose descriptive information about each defined benefit OPEB plan in which they participate, including the funding policy followed. In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Sole and agent employers also are required to present *as RSI* a schedule of funding progress for the most recent valuation and the two preceding valuations, accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

Cost-Sharing Employers

Employers participating in *cost-sharing multiple-employer* plans that are administered as trusts, or equivalent arrangements, in which (a) employer contributions to the plan are irrevocable, (b) plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and (c) plan assets are legally protected from creditors of the employers or

plan administrator, should report as cost-sharing employers. Employers participating in multiple-employer plans that do not meet those criteria instead are required to apply the requirements of this Statement that are applicable to agent employers.

Cost-sharing employers are required to recognize OPEB expense/expenditures for their *contractually required contributions* to the plan on the accrual or modified accrual basis, as applicable. Required disclosures include identification of the way that the contractually required contribution rate is determined (for example, by statute or contract or on an actuarially determined basis). Employers participating in a cost-sharing plan are required to present as RSI schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with Statement 43, is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity.

Other Guidance

Employers that participate in *defined contribution* OPEB plans are required to recognize OPEB expense/expenditures for their required contributions to the plan and a liability for unpaid required contributions on the accrual or modified accrual basis, as applicable.

This Statement also includes guidance for employers that finance OPEB as insured benefits (as defined by this Statement) and for special funding situations.

Effective Dates and Transition

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose are the same as those in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of $100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of $10 million or more but less than $100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than $10 million). Earlier implementation is encouraged.